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STATE FOR EB/TPP/ABT - THOMAS LERSTEN  
COMMERCE FOR ITA/OTEXA - MARIA D'ANDREA  
STATE PLEASE PASS TO USTR FOR ABIOLA HEYLIGER

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SUBJECT: CHILE - UPDATED STATISTICS FOR TEXTILES AND APPAREL SECTOR

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¶11. Per reftel, Post provides the following data for textile and apparel production in Chile in 2005.

TOTAL INDUSTRIAL PRODUCTION IN USD VALUE

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¶12. Total industrial production for 2005 reached USD 19.4 billion, and USD 10 billion for the first semester of 2006. According to SOFOFA, Chile's Chamber of Commerce and Industry, industrial production increased 1.5 percent in July 2006 over July 2005. Total production for the first 7 months of 2006 grew 3.6 percent. Industrial production represented 17.7 percent of Chile's total GDP in 2005.

TOTAL TEXTILES AND APPAREL PRODUCTION IN USD VALUE

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¶13. Textiles and apparel production totaled USD 694 million in 2005 and USD 262 million during the first half of 2006. The textile and apparel production constituted 4 percent of Chile's total industrial production in 2005.

TEXTILE AND APPAREL SHARE OF CHILE'S IMPORTS AND EXPORTS

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¶14. Chile's total exports for 2005 were USD 38.9 billion of which USD 14.4 billion were industrial exports. Textile and apparel exports totaled only USD 193 million. Industrial exports represented 37 percent of Chile's total exports for 2005. Textiles and apparel represented only 1.3 percent of total industrial exports and 0.5 percent of Chile's total exports. Chile's imports during 2005 totaled USD 32 billion; of that, USD 23.9 billion were industrial imports. Textile and apparel imports totaled USD 1.5 billion in 2005 representing 6.2 percent of total industrial imports. Industrial imports represented 75 percent of Chile's total imports of which 4.7 percent were textiles and apparel.

¶15. For the first half of 2006, total exports were USD 26 billion of which USD 8.1 billion were industrial exports. Textile exports were only USD 93 million, equivalent to 0.4 percent of total exports. During the same period, Chile imported USD 16.7 billion worth of goods of which USD 13 billion were industrial imports. Textiles and apparel accounted for USD 865 million representing 5.2 percent of total imports.

EXPORTS IN TEXTILES AND APPAREL TO THE UNITED STATES

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¶16. Total Chilean exports to the U.S. in 2005 were USD 6.5 billion of which USD 2.9 billion were industrial exports. Total Chilean imports from the U.S. in 2005 reached USD 4.7 billion, of which USD 4.6 billion were industrial products. According to Chilean Customs

Service data, Chile exported to the United States USD 2.7 million worth of textile and apparel while imports from the United States to Chile totaled USD 11.9 million in 2005.

**TOTAL MANUFACTURING EMPLOYMENT**

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17. The manufacturing/industrial sector provided employment for 776,670 persons during 2005. There is no disaggregated available data per sub-sector.

**OTHER QUESTIONS**

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18. E/POL Specialist met with Mario Garcia, President of Chile's Textile Institute, (INTECH) the association of the textiles, apparel and shoes industries, in order to get answers to the following questions:

-- Are Chile's producers receiving lower prices due to heightened international competition?

According to Garcia prices have dropped considerably in order to adjust to international competition. About 60 percent of Chile's imports of textiles and apparels are coming from Asian countries, predominantly China, at low, typically undervalued prices. Therefore profitability for the industry has decreased in light of what Garcia calls "unfair competition." At the same time, the energy crisis, mainly caused by the shortage of natural gas from Argentina, has increased the cost for the industry between 10-20 percent. All this together with the strong appreciation of the peso has prompted a serious re-structuring of the industrial sector in general.

-- Have U.S. and EU restrictions on certain exports of textiles and apparel from China affected Chilean export prospects for host country manufacturers?

In general terms, the U.S.-Chile Free Trade Agreement (FTA) has created a preferential access to the U.S. textile and apparel market, providing great benefits for the sector. According to Garcia, since the implementation of the FTA (January 2004), Chile's sales to the U.S. have increased about 50 percent, due to the immediate tariff elimination for most of the sector negotiated under the FTA. However, U.S. and EU restrictions on China's textiles and apparel prompted China to look for alternative markets. China's four to five percent increase in their share of the Chilean textile and apparel domestic market has hurt local producers.

-- Has Chile implemented, or is it considering implementing safeguards or other measures to reduce growth of imports of Chinese textile and apparel products into the country?

During the 1980's economic crisis in Chile, productive sectors were strongly affected by the sudden peso depreciation, the opening of the economy, and trade liberalization. Most companies in the textiles and apparel industry went bankrupt. To support the re-structuring of the textile and apparel industry the GOC, through the National Committee for Analysis of Economic Distortions, imposed a tariff surcharge between 10 to 15 percent for all sensitive products in the textile and apparel industry. This affected mainly imports from Korea, Brazil, Argentina and Colombia. This surcharge was applied from 1983 to 1993. The sector was able to grow again. However since 1991, the sector has been facing what Garcia terms unfair competition from Asian countries that are exporting their undervalued products. About two years ago, the Chilean National Customs Service, at the request of INTECH, formed a joint committee to analyze cases of undervalued products in order to penalize those imports. INTECH has requested the GOC on several occasions to initiate an investigation for safeguards, but according to Garcia, there is no political will to do so.

Garcia believes the Chile-China FTA signed in November 2005, and recently ratified by the Chilean Congress, will provide for the implementation and oversight of proper regulation to protect Chilean textile and apparel producers from unfair Chinese competition. The chapter on dispute resolutions and the Regulatory Joint Commission provide mechanisms to channel the industry's claims and concerns.

-- Has increased global competition affected local labor conditions by causing employers to reduce wages, seek flexibility from government required minimum wages, or adversely affected union organizing?

Except for one company that reduced by 10 percent some of the benefits - not wages - offered to its workers, the industry has not decreased wages. Nor have wages been increased. Wages in the sector have remained the same for the last 5 years, with yearly adjustments for CPI.

-- Will Chile remain competitive in textile and apparel given more competition?

According to Garcia, competition itself is not the main problem. It is unfair competition in which countries undervalue their product making fair competition impossible, the strong appreciation of the peso, and the high cost of energy.

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